BUILDING A BETTER ONTARIO

A Pre-Budget Submission to the Ontario Standing Committee on Finance and Economic Affairs

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Introduction

I want to thank the Committee for this opportunity to present CUPE's views on priorities for the Ontario 2011 budget.

CUPE Ontario is the political voice of more than 240,000 working women and men, making it the largest union in the province.

CUPE members are your neighbours. They provide care at your hospital and long term care home. They deliver homecare for your elderly parents. They collect your recyclables and garbage from the curb. They plough your streets and cut the grass in your parks and playgrounds. They produce and transmit your electricity, and when the storm hits in the middle of the night, they restore your power. CUPE members teach at your university and keep your schools safe and clean. They take care of your youngest children in the childcare centre and make life better for developmentally challenged adults. They protect children at risk and children struggling with emotional and mental health concerns.

We do this every day, in every community and in every riding in the province. It helps make Ontario a good place to live and as a collective experience it equips us to make a positive contribution to planning the next provincial budget.

Strategic Choices

2011 is an election year in Ontario. Because of that, this budget will receive a special kind of scrutiny. Ontarians will ask: "Is this the kind of governance and economic leadership I want for the next four years? Will this budget create jobs and ensure the level of services my family, my parents, my children and I depend on?"

In crafting its 2011 budget, Ontario faces two clear and competing budget strategies: the path of investments and job creation or the path of cuts to programs, services and staffing.

Budget leadership in 2011 is not about trying to please everyone by straddling both paths. That won't work and will please no one.

CUPE was supportive when this government invested to get through the recession. It was the right thing to do.

We disagree when the government goes the opposite way and penny pinches, for example, by starving child welfare and child protection.

We shake our heads when the government promises literally billions in new tax give-aways to banks and big corporations, effectively kneecapping its capacity for deficit reduction.

Budget 2011 requires a consistent economic direction, not a "mission-impossible" attempt to triangulate two contradictory strategic approaches.

Making the right budget choice really boils down to accepting one simple fact: Ontario's government does not have a spending problem, it has a revenue problem.

A fragile recovery

Ontario's economy has not recovered to a point where we no longer need to prioritize investment.

Data collected from nearly 450 food banks shows food bank usage in Ontario has gone up. Again. More than 400,000 Ontarians used food banks last year – an increase of 7.4% from 2009 and a 28% increase from 2008. It tells us that Ontarians are still reeling from the effects of the recession. Meal programs supported by Ontario's food banks served more than 924,000 meals in 2010, an increase of 25% over 2009.

Even more shocking, children accounted for nearly 40% of those served by Ontario food banks – almost 150,000 children. Some households have been able to scrape by, thanks to median and minimum wage increases. But many fixed-income households, including social assistance recipients and seniors, are struggling more than ever. The percentage of people forced to turn to food banks who are over age 65 has increased from 4% in 2009 to 12% in 2010: a staggering 195% increase in just one year.[1]

Investment, not tax or spending cuts, creates jobs and jobs create government revenues

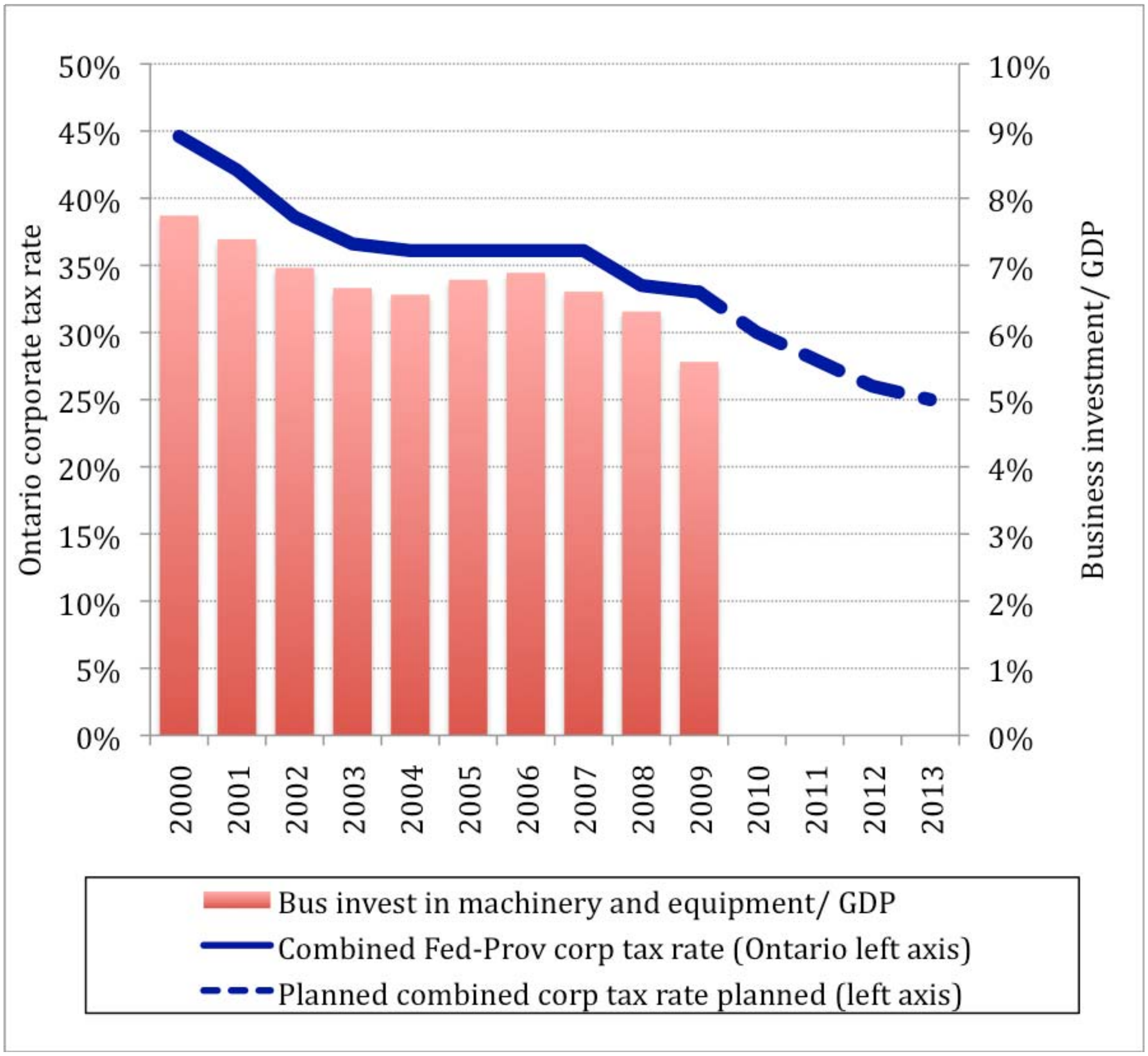
Advocates for cuts as the "only" path to economic recovery often frame their option as a homespun remedy. *"It's what you do at home when expenses outgrow income."* But that only sounds right if we forget a fundamental difference between the household and the provincial government. Ontario businesses and workers don't pay tax to the household.

But for a provincial government, there is no better path to a balanced budget than investments that put money into local economies and increase tax revenues. Consider two examples. $1 invested in public childcare generates $2.42 in new economic activity. $1 invested in public transit generates $2. That's public spending that creates needed infrastructure and through multiplier effects, generates further economic activity actually increases provincial revenues.

Ontario's Corporate tax cuts, on the other hand, fail to generate new economic activity and actually worsen the province's revenue problem. Decreases in corporate taxes in Ontario, as the data shows, have been matched, almost step for step, by a decline in business investment in machinery and equipment. Between 2000 and 2009 the combined Canada Ontario corporate tax rate dropped from 44.6% to 33% with a corresponding drop in business investment to GDP from 8% to 5.7%.

A quick reference to Europe can provide a stark challenge to the popular belief in an inverse relation between corporate tax rates and a robust economy. Germany's combined corporate tax rate is 30%. Ireland's is 12.5%. Which country boasts a stronger economy today? Germany is one of the few European economies to have emerged stronger than ever from the recession and continues to outpace us in job creation and in GDP growth.[2]

[1] http://www.foodbankscanada.ca/documents/HungerCount2010_web.pdf
[2] OECD Economic Outlook database



In 2011, continuing with annual corporate tax cuts of $2.5 billion will not assure new jobs, or new investment. It will, however, force us to choose between providing vital services or reducing the deficit. That's not the choice Ontarians want and it's a choice we won't have to make if we take the prudent approach of cancelling these very ill-timed corporate tax cuts.

Those who feel we must cut corporate taxes further to protect and encourage investment might do well to listen to KPMG. In their recent study of different countries' corporate tax rates Canada comes 2nd, with only Mexico boasting lower corporate taxes. The same study shows that of 41 major international cities, Toronto ranks near the top at #5 for a low business tax environment.

It is ironic that the Liberals' own federal leader, Michael Ignatieff, criticizes the corporate tax cutting model as "Harper-economics" and says "It is imprudent in the extreme to borrow $6-billion to give large, already powerful corporations a tax break when you're running a $56 billion deficit."

Mr. Ignatieff characterizes the debate over increasing corporate tax cuts as "… a fundamental disagreement on the economic policy of our country."[3]

Why, when federal Liberals are on record opposing the federal Tory plan to reduce the CIT from 18% to 16.5% do provincial Liberals want to reduce the Ontario CIT from 12% to 11.5%? Reducing Ontario's CIT in July 2010 from 14% to 12% meant forgoing over $2 billion dollars that could have gone to job creation and deficit reduction.

Economist Hugh Mackenzie estimates that Ontario's "tax cut regime" has resulted in a massive loss of fiscal capacity for our government. In his 2010 technical paper entitled "Deficit Mania in Perspective" Mackenzie shows tax cuts have reduced Ontario's fiscal capacity by approximately $18 billion per year[4], an amount, coincidentally, almost the exact size of the provincial deficit.

This is a good example of what we mean when we say the Ontario government doesn't have a spending problem, it has a revenue problem. Fixing that problem includes rolling back Ontario's corporate tax levels to where they were in 2009.

2011: Wrong time to pull money out of the economy

Ontario doesn't have a deficit because we spend too much and provide unneeded services.

Ontario has a deficit because, having done the right thing and invested to get us through the economic crisis, the province's economy is still recovering and not yet earning revenues sufficient to maintain the quality of life that continues to define Ontario as a great place to live and work.

Most people probably don't know that Ontario ranks near the bottom, #8 out of 10 provinces, in program spending as a share of GDP or that our public sector has been steadily shrinking as a share of total employment going down from 23% in the mid-1970's to 18% in 2009.

Many would be surprised to learn that wages and salaries as a share of government spending have been dropping for 25 years, from 52.3% in 1981 down to 39.4% in 2007.

Real wages for Canadian workers have stagnated for years. Contrary to popular perception, public sector wages actually fell behind private sector wage settlements for 16 of the past 18 years and, according to Ontario's Finance Minister, public sector wage settlements are now averaging 1.7%, which, in the context of Canada's 2% inflation, means that real wages, salaries and purchasing power, are actually declining.

The overall combination of high unemployment, inflation and stagnant or dropping real incomes, aggravated by highway-robbery credit card interest rates, has led to record levels of household debt.

[3] (Globe & Mail, December 17, 2010, p.A10)
[4]http://www.policyalternatives.ca/sites/default/files/uploads/publications/reports/docs/Deficit%20Mania%20in%20Perspective.pdf

Based on information released by Statistics Canada, media reported in December 2010 that "the ratio of household credit market debt-to-personal disposable income hit a record 148.1 per cent in the third quarter from 143.4 per cent in the prior quarter" mostly because of a "1.5-per-cent drop in disposable income."[5]

No wonder then, that internationally recognized Canadian economist David Rosenberg told this year's Ontario Economic Summit, that consumers are still "de-leveraging" and not yet spending and investing enough to secure the Ontario economy in a sustained recovery.

Budget implications of today's income trends and personal debt levels

Today's combination of falling real incomes together with record levels of personal and household debt means 2011 is not the right time to pull money out of the economy. We need income levels that will allow a reduction of household debt and encourage investment in our economy.

That's why a continuation of compensation restraint would hurt recovery. Free collective bargaining, on the other hand, allows employers and employees to set wage levels, as they have long done, at levels that match and support the state of the economy. Freezing wages and salaries in the public sector hurts everyone because it weakens the overall bargaining climate throughout the private sector.

Obscured by a media fixation about whether private sector or public sector wages are higher, the truth is that during the 1990s the share of the total economic pie going to all workers, public sector and private sector, in the form of wages, salaries and other labour income actually declined from over 55% to 51% where it remains today.

Ontario's economic health depends on its workers and their families earning incomes that allow them to invest in homes and appliances, in cars and in post-secondary education.

Rather than 2011 being a time to take money out of the economy by depressing incomes, the right budget strategy will support decent incomes by discontinuing the wage freeze, adjusting Ontario's labour legislation to restore card check union certification and anti-scab legislation, and finally by restoring social assistance rates.

By making it possible for more workers to choose unionization, free from employer intimidation, restoring card check to Ontario will help maintain and even increase real income levels in both private and public sectors. Today, only 26.5% of Ontario's workers are unionized, a rate that is the 2nd lowest in the country ahead of only Alberta,[6] and that contributes to poverty and holds back growth.

2011 is also the right time to stabilize our economy by introducing anti-scab legislation to stop rogue employers like Vale-Inco from purposefully prolonging strikes, month after month, and bringing untold damage to Ontario communities as they did last year in Sudbury and as another firm, ECP–Engineering Coated Products, is still doing today in Brantford.

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[5] http://www.theglobeandmail.com/report-on-business/economy/household-debt-ratio-hits-record/article1835268/
[6] http://www.statcan.gc.ca/pub/75-001-x/2010110/pdf/11358-eng.pdf

As the food bank figures cited above show, poverty, the antithesis of economic growth, continues to be a real problem in Ontario for those not working and even for many who are. It is time for Ontario's minimum wage to be indexed to inflation – this legislative measure, at no cost to the provincial treasury, will help ensure that Ontarians' real wages do not fall further behind.

As documented by the Ontario Association of Food Banks,[7] poverty has a significant cost for governments. The federal and Ontario governments are losing at least $10.4 billion to $13.1 billion a year due to poverty, a loss equal to between 10.8 to 16.6 per cent of the provincial budget. Poverty has a cost for every household in Ontario. In real terms, poverty costs every household in the province from $2,299 to $2,895 every year. That's why we should all agree it's past time for Ontario to restore social assistance levels to, at least, the bare subsistence level they were at prior to the Mike Harris cuts of 1995.

Imminent international trade policy decisions threaten Ontario economy

When international trade deals threaten Ontario's right to use all of its own economic levers, they need to be the subject of budget consultation.

CETA, the Comprehensive Economic and Trade Agreement that Canada is negotiating with the European Union, will soon see provincial offers tabled with the EU and it is imperative to decide now to safeguard our industrial economy.

CUPE's concerns are two-fold, and this is the same message we are delivering to the FCM and regional municipal officials across Ontario.

First, a "disproportionate share of our exports to the EU consist of raw or barely processed resources while almost all of our EU imports are more sophisticated and technology-intensive products."[8] Diversifying trade is laudable, but we need to focus on value addition rather than resource extraction. Ontario needs legislation that enables green industrial and manufacturing work to relocate to Ontario rather than signing onto an international trade deal that will see the further loss of high-value jobs from Ontario.

Our second major concern with CETA is about protecting the sovereignty of our economic decision making.

We worry about CETA's impact on Ontario in regards to EU access to procurement at the provincial and municipal levels, and for the broader public sector.

We must protect procurement as a key lever, available to communities, for local economic development. Communities must maintain the democratic right to decide that they will support local job creation and capacity building. Once ratified, the CETA agreement will tie the hands of locally elected politicians in decision-making processes. Local priorities will not be reflected in local procurement contracts; communities will suffer as the logic of economies of scale will see smaller scale and local bidders priced out of the marketplace.

[7] http://oafb.ca/assets/pdfs/CostofPoverty.pdf

[8] http://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2010/10/Out_of_Equilibrium.pdf

This is why the spring 2011 budget is the right place for Ontario to make clear they will not sign on to trade agreements that compromise our ability to use all of Ontario's economic levers to build a stronger economy.

Priorities in key sectors

Investment in social and physical infrastructure is the best way to create jobs and to grow the economy. The chart below looks at the multiplier effects of investments in a number of sectors as opposed to the effect of tax cuts.

As you can see for yourselves, these are figures that come from Informetrica. This independent economic analysis demonstrates conclusively that tax cuts are the WORST possible way of trying to grow the economy.

The right strategic choice in Budget 2011 – wise public investment – will encourage everyone to imagine a better Ontario. What follows below are a few examples of what this could mean in different sectors:

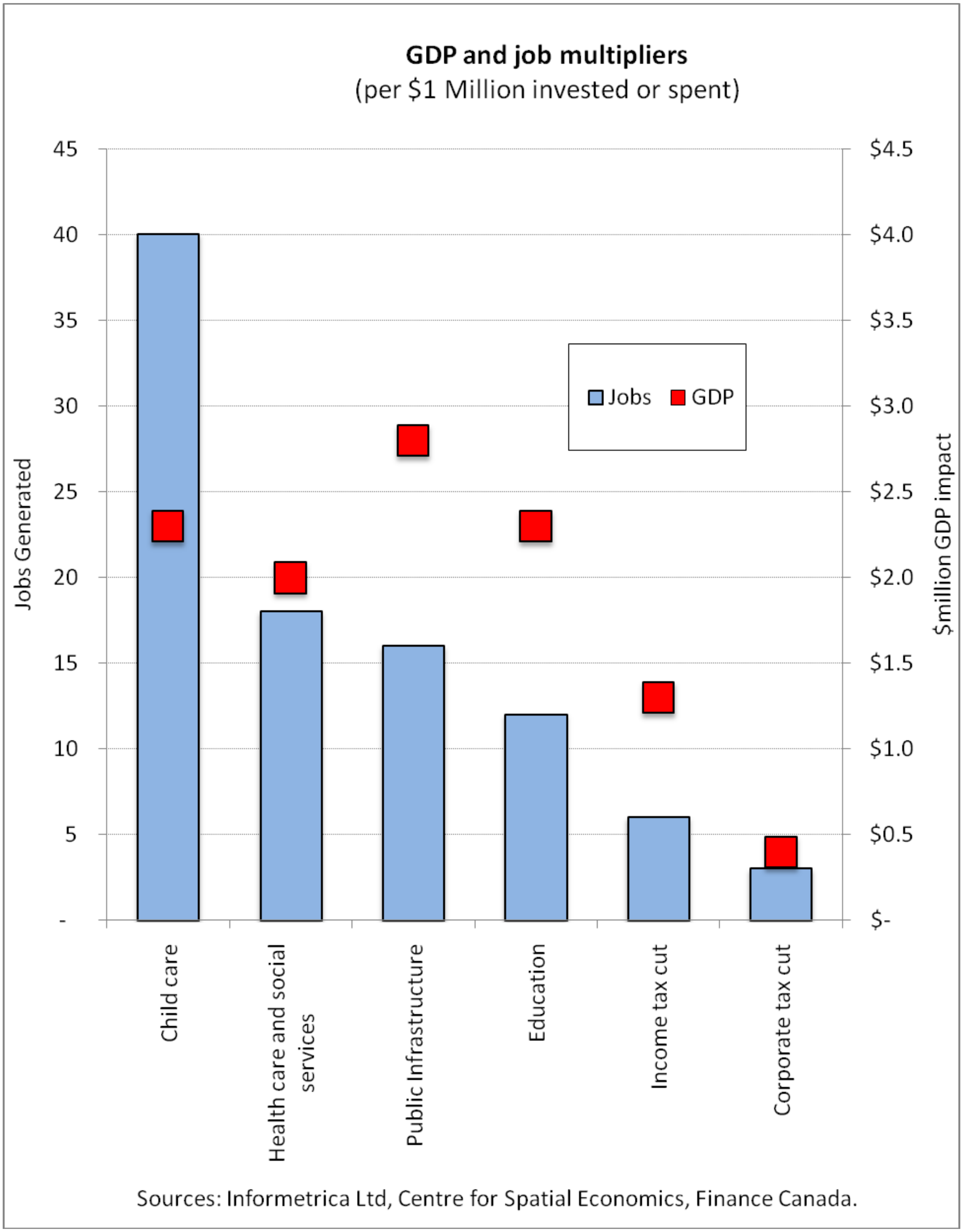
A better Ontario is about implementing the Early Learning Program as it was originally meant to be implemented by Charles Pascal. I once again refer you to Informetrica graph and invite you to compare for yourself. For every million dollars spent on child care by government, 40 jobs are created, and the economy reaps more than $2 million in GDP growth. Now contrast that with a million dollars worth of corporate tax cuts. Less than five jobs created, and a quarter-million dollars worth of GDP growth. The better investment for Ontario is clear.

A better Ontario is about ensuring that our seniors have access to the homecare they need, not compromised by a reintroduction of competitive bidding. A better Ontario means ensuring health care dollars are spent wisely across the entire health care system, including homecare.

As you know, compulsory contracting out of homecare services was introduced by the Mike Harris Conservative government in the mid-1990s. Unlike public hospitals, which directly provide health care services, Community Care Access Centres (CCACs) are required to contract out homecare services. This was part of a drive by transnational corporations to skim profits from public health care dollars, a drive that has now moved into other health care sectors.

The results have been extremely negative. Money that could have been more wisely invested in our homecare system instead went to corporations in the form of profits, while creating poor living and care conditions for patients, and equally poor working conditions. Competitive bidding has also meant a real lack of care continuity for patients and their families, and despite poor working conditions, the cost to the Province for home care actually increased after competitive bidding was introduced,[9] and is another reason why the ban on competitive bidding should be made permanent.

[9] http://cupe.ca/updir/Fact_Sheet_-_Home_Care_Privatization_in_Crisis_--_FINAL_19Feb10.pdf


GDP and job multipliers
(per $1 Million invested or spent)
Jobs Generated
$million GDP impact
45
40
35
30
25
20
15
10
5
-
$4.5
$4.0
$3.5
$3.0
$2.5
$2.0
$1.5
$1.0
$0.5
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Jobs
GDP
Child care
Health care and social services
Public Infrastructure
Education
Income tax cut
Corporate tax cut
Sources: Informetrica Ltd, Centre for Spatial Economics, Finance Canada.

A better Ontario is about protecting quality health care in our hospitals and ancillary health facilities. As the Ontario Health Coalition notes, “in terms of health spending, Ontario spending per person is actually lower than almost all of Canada. Despite the government’s crisis rhetoric, per capita public health care spending in Ontario is the second lowest of all of Canada.

While this government continues to support privatization and rationing of needed care while proclaiming that health care is eating up more of the provincial budget, what it fails to note is that the total budget has been decimated by more than a decade of tax cuts. And those tax cuts are continuing.”[10]

Privatization through P3s eats away at resourses, many millions of dollars worth in the case of hospitals that should be directed to patient care in the health system.
Public-private partnerships make no economic sense in the best of times, but the current financial meltdown has eroded their credibility even further. The current credit crisis is making it difficult for private-sector P3 partners to access capital and credit, which threatens to leave their public partners in the lurch. At the same time, the cost of government borrowing has declined, which has further increased the difference in public sector and private borrowing rates.

A December 2008 global review by PriceWaterhouseCoopers found that the credit crisis has led to a sharp increase in borrowing costs for infrastructure projects of about 1.5 to 2.0 percent above the lowest rates that governments can obtain.[11]

A better Ontario is one where the government stops P3 financing.

A better Ontario is about prioritizing the next generation today by freezing post-secondary tuition fees. CUPE Ontario is calling on this government to follow the blueprint for public investment in postsecondary education laid out last year by the Canadian Federation of Students-Ontario in “Change for Ontario: Proposal for A Postsecondary Education Stimulus Package.”[12]

As the CFS points out in this report, “there is well documented research highlighting the returns to investing in post-secondary education. According to the 2001 Census, the median employment income in Ontario was $25,052. The median income for someone with a Bachelor degree was $39,000 offering approximately a 56 percent return. In terms of benefits to the public, beyond the importance of having a highly educated workforce possessing skills and expertise, the post-secondary education graduate individual generates higher incomes and the tax revenues that people contribute.”[13]

Not only CUPE believes in publicly provided university tuition. The US State of Georgia introduced free tuition years ago for students achieving a B+ or better. And it would make sense in Ontario too as part of a long term plan to grow the economy by having the best educated workforce we can imagine.

[10] http://www.web.net/ohc/
[11] cited in David Hall, *A crisis for public-private partnerships (PPPs)?*, Public Services International Research Unit, January 2009.
[12] http://cfsontario.ca
[13] http://cfsontario.ca/downloads/CFS-Change%20for%20Ontario%202009.03.pdf

A better Ontario is about retirement security through an enhanced CPP. In a recent survey conducted by Harris/Decima on behalf of Scotiabank, nearly 70 per cent of Canadians said that they planned to work after retirement – 38% because of financial necessity. Alarmingly, 5% of respondents said they are counting on a lottery win to see them through their retirement years.[14]

CUPE Ontario, along with the Canadian Labour Congress, continues to call for doubling the CPP. We are fully aware that this is an issue that needs Federal legislation but we also know the alternative private sector defined contribution plan that is being put forward by the Federal Conservatives will also need enabling provincial legislation. We are calling on this government not to move to the so called "PRPP" model in which most workers will still remain without sufficient pension coverage, but to increase the pressure on Ottawa to follow through on their earlier commitment to enhance the CPP.

As part of a blueprint for a better Ontario, CUPE calls on the province to upload the costs of downloaded services faster. The agreement to upload the cost of Ontario Works reached in 2008 is a first step but backending the major uploading to 2014 and onwards is not the most efficient way of easing some of the financial pressures facing municipal governments.[15]

It is past time for Ontario being the only second tier jurisdiction in North America that refuses core operating funding for public transit in its biggest city. This government needs to focus on a sustainable green economic strategy, and investing in public transit is an essential step in that direction.

Building a Better Ontario means sustainability for child welfare and child protection. The recession has had a deep impact on Ontario families and family support services have become more important than ever. The investment in child care announced in last year's budget was something that CUPE Ontario had sought and supported whole-heartedly. This year we are calling on this government to make similar commitments on child welfare and child protection services. The funding crisis has already threatened closures and caused job losses; this does not help Ontarians have faith in this government. Ontario families are looking to this government to step up, in this budget, with sustainable funding for community, non-for-profit childcare.

The "poverty costs" cited earlier in this submission could be significantly reduced by a threefold combination of strategic investments in the social and physical infrastructure of Ontario, including fully funding public child care, adequate funding for child welfare and protection; and at the other end of the age spectrum, regulating a minimum 3.5 hours of care in long-term-care homes so that our senior citizens can have the care they need as they age.

These selected investments are examples of the "better Ontario" commitments Ontarians hope for in an election year budget. Rather than aggravating the deficit burden, these are the kind of investments that will grow the economy and help Ontario achieve the revenue base it needs to deal with the deficit.

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[14] http://www.cbc.ca/canada/montreal/story/2011/01/04/con-retirement-survey.html?ref=rss&loomia_si=t0:a16:g2:r3:c0.0786588:b40724944#ixzz1AHxV6gin

[15] http://www.mah.gov.on.ca/Page6025.aspx

Conclusion:

In conclusion CUPE thanks the Committee for this opportunity to have input into Ontario's budget planning.

Ontario faces two clear and competing budget strategies: Invest to create jobs, or make cuts to programs, services and staffing that all Ontarians need. Any attempt to please everyone by straddling both paths will fail.

The Ontario government does not have a 'spending problem.' Rather, the government has a 'revenue problem' caused in large part by a series of corporate tax cuts that have deprived all Ontarians billions of dollars without providing the jobs proponents of corporate tax cuts promised.

While there are promising signs that Ontario has begun to emerge from the worst effects of the global economic crisis and subsequent recession, that recovery is fragile. Government cutbacks during this period put that fragile recovery at risk.

Rather than cutting programs, services and staff, CUPE Ontario urges this government to make wise investments in key social and physical infrastructure. This approach, coupled with a fair corporate tax rate is the best approach to ensure our fragile recovery continues to gain strength, and Ontarians have the resources they need to build a better Ontario.

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